RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958

PO Box 1759, La Jolla, California 92038 — 17 Letters Per Year - $250 Annually

LETTER 1335

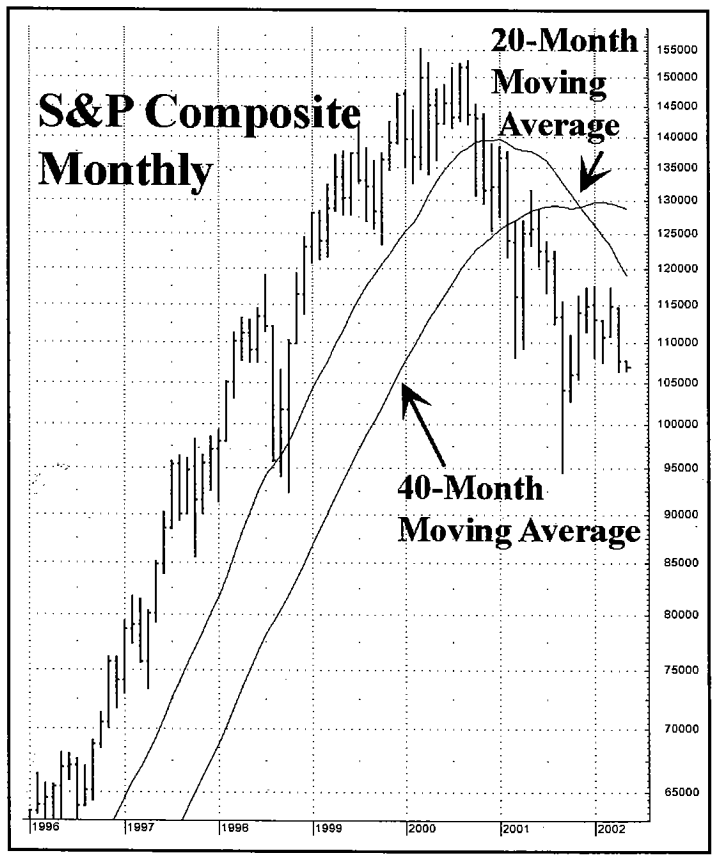
May 8, 2002

April 19, DJIA 10136.43; PTI 5322; A-D Ratio +3.47
April 26, DJIA 9910.72; PTI 5304; A-D Ratio +2.79
May 3, DJIA 10006.43; PTI 5302; A-D Ratio +3.75
S&P Yield: 1.49 S&P p/e: 43.48
Gold 50-day MA: 300

THE PICTURE – The chart that I show on this page is, in my opinion, the KEY chart in the whole stock market and economic picture of the US at this time.

I've shown this chart before, but I want to update it. Here we see the S&P 500 Composite plotted on a monthly basis. Overlaid on this chart I show a 20-month moving average (MA) and a longer-term 40-month MA.

Note that the monthly S&P has assumed the pattern of a giant "head-and-shoulders" top. The entire top formation began to form in January 1998. Therefore, it's clear that this top is huge, maybe the largest top in stock market history.



Note that the 20-month MA turned down in January 2001. It has continued down since then — but at an accelerating rate.

In November 2001 an important event took place. In November for the first time since the early '80s the 20-month MA broke below the 40-month MA. Then, two months ago, the long-term or 40-month MA turned down.

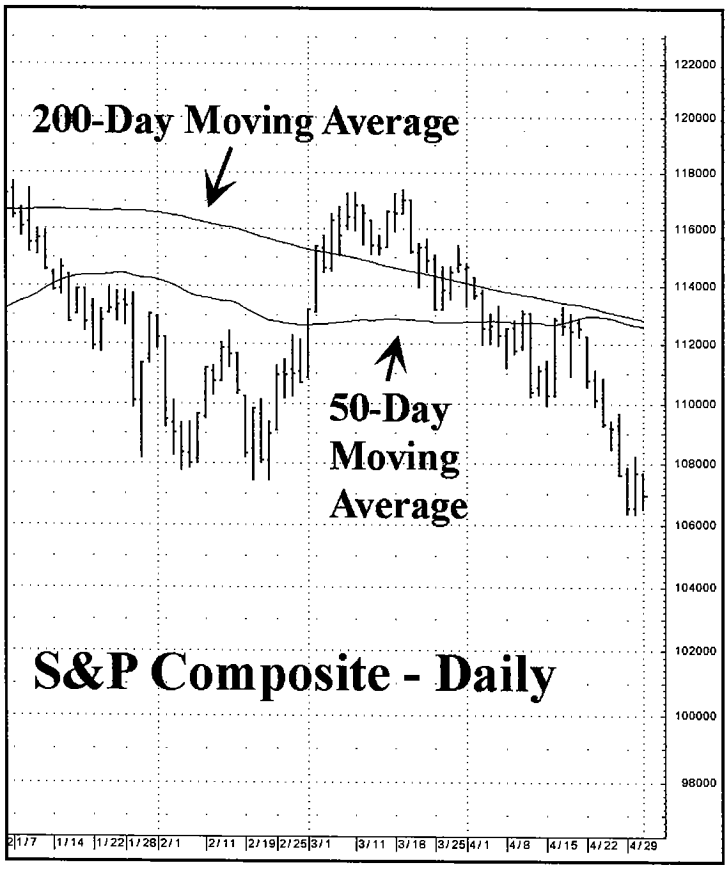
Study the right shoulder of this giant head-and-shoulders top. It appears very weak. In fact, the S&P has now broken below the lows of the last five months.

The two critical levels on the S&P Composite to watch are (1) the September 2001 closing low of 1041, and (2) even more critically important, the extreme September 2001 low of 944.

If 944 is violated on the S&P, I would expect the bear market losses to accelerate and the bear market to move into a much uglier phase.

Question – Russell, at what point would you say that the S&P was reversing to the upside?

Answer - To answer this question I have included on the next page a daily chart of the S&P together with its 50-day and



200-day moving averages. The S&P is now in its full bearish position with the S&P below its 50-day MA and the 50-day MA in turn below its 200-day MA.

For an important upside reversal, I'd want to see the S&P move above its 200-day MA, which now stands at 1129.

MONEY — Here are a couple of interesting questions. Dollars pay interest and the government tells us that dollars are real money or at least they are legal tender. Gold, based on 5000 years of history, is also real money, so why doesn't gold pay interest?

The answer is that an item demands interest if there is a risk attached to it. When you own dollars the risk is clear – since 1940 the dollar has lost 95% of its purchasing power. This is true despite the fact that the first duty of the Federal Reserve is said to be to insure the stability of the dollar.

So there is an obvious risk in holding dollars. For instance, in bonds (which are debt denominated in dollars) the further out you go in maturity the more the bond issuer has to pay in interest. This is because it's a given that the dollar's purchasing power will deteriorate over time, and thus investors want to be compensated for the additional risk of a longer-maturity bond.

What about gold? Why doesn't gold pay interest? Gold is real money. Gold is a pure asset in that it has no debt against it and thus gold cannot go bankrupt. Gold is not managed by any group or any central bank. Gold doesn't have to be managed.

Gold has an intrinsic value on its own just as a Picasso has an intrinsic value or a letter signed by George Washington has an intrinsic value. A Picasso doesn't pay interest nor does a letter signed by George Washington. The only risk in owning the Picasso or the Washington letter is that the amount of dollars needed to buy either one will vary. But they will ALWAYS have an intrinsic value.

If you said to me, "Russell, if you were to leave a certain amount of wealth to your great, great, great grandchildren (they may be here on earth 100 years from now) what would you leave them?

I would unhesitatingly say, "I'd leave them gold." The reason I'd leave them gold is because I know gold will be around 100 years from now, and that gold will be considered money or at worst an item of value 100 years from now. There's no other item I can say that about except probably good jewelry and land and certain objects of art or certain objects that have historical or collector's value.

Second question – The Federal Reserve creates the money supply of the nation. But what if the government itself created the money supply as originally stipulated by the US Constitution?

In that case, why couldn't the government issue the money it needs to run itself? And if the government could do that, why are we paying income taxes? Why couldn't the US government simply issue the money it needs to cover all its expenses?

The answer is that since the money creation power was given to the Federal Reserve, to carry on this charade the government (which is in hock to the Federal Reserve) must tax its citizens in order to get the money it needs to run itself.

This whole set-up was created and keeps going because it's outside the understanding of probably 99% of Americans. There's nothing more mysterious to the average US citizen than the whole process of money, how our money is created, and what the Federal Reserve and the federal tax system is all about.

The critical questions are never asked. They aren't even asked by our Congressmen and Senators. They aren't asked because our Congressmen and Senators aren't knowledgeable enough to even know what questions to ask.

To my mind, the entire Federal Reserve System is a fraud perpetrated on the American people. As such it will ultimately collapse. It's simply a matter of time. But like all institutions, the Federal Reserve will do anything and everything in its power to perpetuate itself.

The ultimate object of the central banks, taken together, is to institute a world central bank with a single currency. Then there would be no problem of competing currencies. Then a single central bank would control the entire world's money. Then the central bankers would realize their dream. Total control and power to manipulate the world economies.

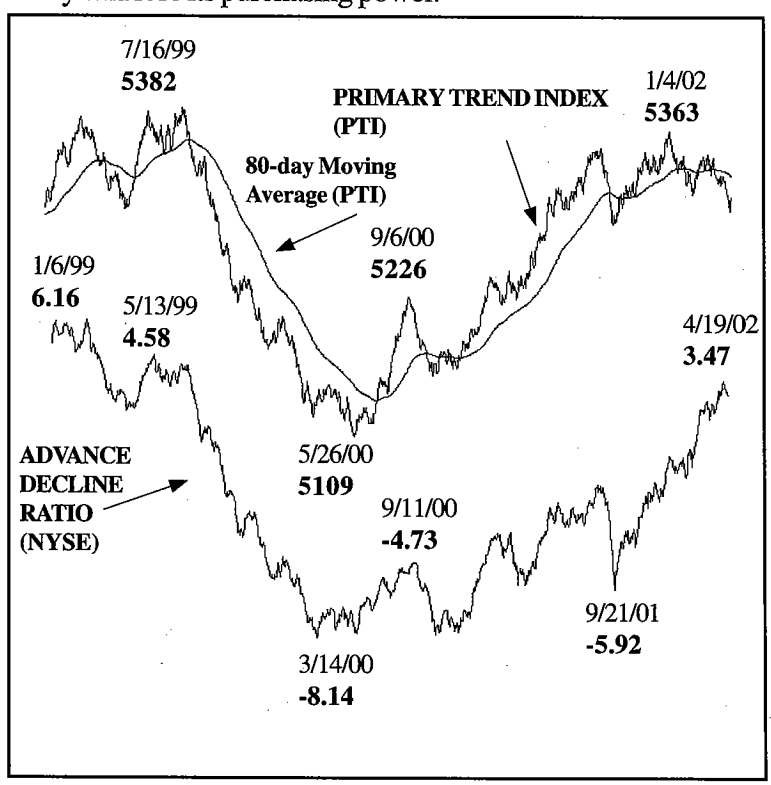
The central banks – the unending quest for monetary power and control.

And I'll say it again — in the end, like all frauds – the central bank system and their fiat (paper) money will collapse. They will collapse because their mania to control money supply always gives way to the madness of power and the attractiveness of corruption. One of the corruptions of the central banks is their dependence on inflation. The one thing certain about every central bank is that over time their "legal tender" money will lose its purchasing power.

By the way, I consider gold and gold shares at this time unlike any other items. I say this because I believe we should look at gold and gold shares as insurance against a system that almost guarantees inflation over time.

The only real protection we have against the Federal Reserve System is real money, and real money (gold and silver) is outside the system. Which is why the central banks of the world hate gold, gold shares and gold derivatives.

But truth conquers lies, and real money ultimately conquers phony legal tender. Deep in their hearts the people who run the Federal Reserve know this. Which is the basic reason why they both fear and hate gold.



INVESTMENT POSITION – Here's a question that has been on my mind. The policies and actions of the Federal Reserve have, over the years, invariably led to inflation and a loss of purchasing power for the dollar. Let's just assume that this will continue.

One way of protecting oneself against inflation has been to buy common stocks. But with the price/earning ratio for the S&P at an historical extreme of 45 and with stocks yielding little or in many cases nothing, it's a bit far-fetched to believe that a collection of common stocks bought today will be any kind of protection against inflation. In fact, over the forthcoming ten-year period it's entirely possible that a collection of stocks bought today – will be down.

So what course can an investor follow to keep up with inflation, assuming, of course, that inflation will continue?

My own inclination is as follows – you buy income producing stocks or bonds and depend on the power of compounding. However, there is one caveat. You MUST continue to reinvest the interest or dividends, and preferably add new money to the mix.

In other words, buy income-producing securities, reinvest the income, and preferably continue to add to the pile. Thus, you are depending on the great power of compounding to keep up with – or actually to beat the degrading forces of inflation.

This policy is, as I said, particularly important to employ in an era where stocks are selling far above known value.

I believe the serious, knowledgeable investors are already beginning to follow this course. You can see evidence of this policy in the action of the utility stocks and the ten-year T-note. Both offer dividends or interest over 5% and both have been trending up since early February in the case of the utilities and since mid-March in the case of the ten-year T-note.

What this course implies is that you are depending on the power of compounding rather than stock appreciation to keep up with the degradation of purchasing power of the dollar.

Also, this policy has one other advantage. You are dealing with items that are less volatile and probably less likely to collapse during a major or primary bear market.

So the question is – what kind of items can you buy that will throw off rates of say 5% or more? Tough question, but I think the answer is – Treasury notes, certain electric utilities and certain preferred stocks.

But I repeat – the whole process is predicated on reinvesting the income and if possible adding to the mix periodically. Remember, even if interest rates are in a rising trend, if you follow a policy of adding to the mix you will be adding items which offer a higher yield. These higher yield items will be compounding too, so that ultimately you will be holding a mix of items that will be throwing off an ever-increasing amount of money.

NOTES & QUOTES – You think that the Atlantic salmon you just enjoyed at your favorite restaurant came from the ocean ("catch of the day")? Guess again. The oceans of the world are being "fished out" and rapidly. When I first moved to San Diego I could go downtown and see the commercial fishing boats lined up, ready to go out to sea. No more.

And that salmon, the odds are that it came from a process known as aquaculture. In fact one of the largest aquaculture farms, Kent SeaTech Corp., is located just east of San Diego near the Salton Sea. There are 120 aquaculture farms in California and many more in Europe and Asia.

In the last decade aquaculture's haul has more than doubled to 35.6 million tons of fish a year. More than 60% of the salmon, virtually all the catfish and trout, and two-thirds of the shrimp consumed by Americans are raised in ponds, tanks and pens.

The world's largest salmon producing country is Norway. The second biggest producer is Chile. Aquaculture produces more than a third of all the fish and shellfish that the world outside the US consumes. In the US, aquaculture, so far, only supplies a tenth of the fish consumed by Americans.

And if Americans continue to consume seafood at the current rate, about 15 pounds per person per year, by 2025 the US will need an additional one billion pounds of farmed production to meet the demand.

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Pfizer, the world's biggest drug company, is going to intensify its backing of Phytopharm, the quirky British developer of an appetite suppressant based on a succulent. Phytopharm announced the fourfold increase in P57, a chemical that is said to cut caloric intake by 30%. The reason I was particularly interested is the P57 comes from the Hoodia plant, a succulent from South Africa. I've been growing Hoodias for years. The *Financial Times* mistakenly called the Hoodia a cactus. It's not a cactus, it's a succulent. As a matter of fact, cacti are only indigenous to the Americas. No cactus was ever found anywhere else.

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Pretty soon we all may be making all our telephone calls via the Internet. A service called Vontage offers unlimited local and long distance telephone calls, cost $40 a month. You sign on online at www.vontage.com and they send you a little box. Hook your cable modem or DSL line up to one end of the box, plug any ordinary phone into the other end and it's ready. I hear that the voice quality is very good. Son Ryan called me recently from South America via the Internet and I thought the voice quality was surprisingly good. And here's another outfit recommended by a subscriber: www.BigZoo.net . Calls to Europe are now $.04 to $.07 a minute and in the US $.03 anytime, anywhere. How can the telecoms compete with this?

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Ten years ago population experts were fearful about the tremendous predicted surge in Africa's population. That fear has calmed down due to the surging incidence of AIDS. Here are some statistics of the percentage of adults in Africa who have AIDS – Cote D'Ivoire – 10.7%; Tanzania 8.09%; Mozambique 13.2%; Swaziland 25.2%; Namibia 19.5%; Central African Republic 13.8%; South Africa 19.9%; Rwanda 11.2%; Kenya 13.9%, Malawi 15.9%.

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A bit of news – Bush's proposals to fight terrorism are fueling the largest increase in spending since the 1960s. According to *The Washington Post*, spending on government programs will increase 22% from 1999 to 2003 in inflation-adjusted dollars. "The President's 2003 budget proposals, combined with spending approved in the first year of his administration, and the last two years of the Clinton administration, dwarf the spending increase from any four-year period since President Lyndon Johnson fought the Vietnam War while launching a war on poverty."

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In 1979 there were 19 AAA-rated US corporations. This year there were nine. A few weeks ago Bristol-Myers was down-graded by Moody's to Aa2. That left eight AAAs. They are General Electric, UPS, AIG, Exxon-Mobil, Johnson & Johnson, Berkshire-Hathaway, Pfizer and Merck.

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CHELATION - excerpts of a testimony from a subscriber:

Dear Dick: I have been a subscriber to your letter for many years. Thank you! ... Many people are waking up to the gross deception of cardiology and bypass surgery, in great part thanks to you. I had four heart attacks from age 38 to 40 - now 69 1/2. Three "bypass" surgeons advised me of imminent death if I didn't have open heart surgery. I wouldn't do it. I am still living, in great health, and all three surgeons are long dead.

I have had 44 IV chelation treatments and still taking them. I think they have renewed my vascular system. I also take oral chelation. Of course I haven't been through a "double blind" test, but I know how I felt before and after. I don't need the witch doctors. I have read 12 books on chelation including all the research of the Academy of American College for Advancement in Medicine (ACAM), 23121 Verdugo Drive, Suite 204, Laguna Hills, CA 92653, Phone (949)583-7666, Fax (949) 455-9679.

I can tell that EDTA does not remove calcium from the bones according to ACAM research. It restores calcium.And when your "cardiologist" writer said that he could have been a fat cat doing EDTA therapy, he lost ALL credibility. At $100 per session, everybody knows that this is nonsense and unworthy of debate - a dead giveaway that he was bluffing.

There are at least four things that your cardiologist/surgeon omits to tell you.He does not tell you that arteriosclerosis is a whole body disease, not just the coronary arteries. At best, he is going to by-pass only a few inches of plaqued arteries. But what about the other 99% of your cardiovascular system plaqued by arteriosclerosis? And second, he doesn't tell you about angiogenesis which is the body's action of naturally growing new arteries around any blocked arteries. This natural process produces more new circulation then what was originally occluded. Bypass surgery stops this process in its tracks, making the body dependent on bypass surgery instead of its own natural response. A new diet, exercise and fish oil as a blood thinner provides time for this to happen. He doesn't mention that whole B complex is far superior to heart drugs with their killer effects.

And last, he doesn't mention the proven miracle of IV and oral EDTA chelation that scrubs out all the arteries in the heart, the lungs, the brain and the whole body. Sincerely yours, DL

LATE NOTES – The dollar has topped out and the question is "How far down is the dollar fated to go?" The answer is that I don't know, nor does anyone else know. What's significant, however, is how little publicity has accompanied the dollar's decline.

What are the implications of a dollar decline? A dollar decline will raise the cost of foreign goods, and that would probably bring about some improvement in our trade balance. A dollar decline would also help our manufacturers, who have either been closing down or moving their factories overseas. A rapid and major decline in the dollar could frighten foreign holders of US securities. If they moved to dump their US holdings, we could see panic conditions here and higher interest rates.

If you haven't done it before, it would now pay to protect yourself against the decline in the dollar. You can do this by buying another currency such as the euro or by buying real money itself, which is gold. You can buy CDs denominated in other currencies through the Everbank (see it on the Internet) or you can diversify by buying gold coins or gold shares.

If you buy gold shares I would not buy shares in just one stock. You should hold a minimum of four or five different gold shares for diversification. Gold shares I like are NEM, AEM, HGMCY, GOLD, and DROOY. A package of all five might be the ticket, even if you have to buy all five in odd-lot amounts.

Next mailing: May 30, 2002